



TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of North Branch	County Lapeer
Audit Date June 30, 2005	Opinion Date August 17, 2005	Date Accountant Report Submitted to State: December 2, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

August 17, 2005

To the Township Board
Township of North Branch
Lapeer County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of North Branch, Lapeer County, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of North Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of North Branch, Lapeer County, Michigan as of June 30, 2005, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2005

The Management's Discussion and Analysis report of the Township of North Branch covers the Township's financial performance during the year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

No major purchases have been made during this fiscal year.

The Fire Department bought a used ambulance during the 2004-05 year at a cost of \$2,500.00 which was converted to a Rescue Truck. An additional \$2,000.00 into repairs and equipment made this a very useful addition to the fleet.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund, the Fire Fund, the Library Fund and the Building Fund.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. The Township's governmental funds include the General Fund and the Special Revenue Funds.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The revenue of the Township was somewhat less than the prior year. Primarily property taxes and revenue sharing are the main source of funding for the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund's fund balance decreased by \$62,578.62 to \$406,993.00, the Fire Fund fund balance increased by \$18,679.74 to \$184,916.28, the Library Fund fund balance decreased by \$15,603.45 to \$475,230.04 and the Building Fund fund balance increased by \$10,465.38 to \$49,430.43.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township acquired \$92,108.34 in new capital assets during the fiscal year ended June 30, 2005.

Principal payments on long-term debt were \$109,603.62.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township Board did not authorize any large projects this year. The Board has two major road projects targeted to do in fiscal year 05-06. The Hutchinson Road Bridge is needing replacement and Elm Creek Road needs to be reconstructed to prepare for paving as it is a highly traveled road used largely by the school.

The EMS/Fire Building is in need of an addition for housing vehicles which is in the planning stage estimated to cost \$55,000.00 to 60,000.00.

Our Township Building roof system is being considered for replacement of a truss system as it is a flat roof and requires constant repair. This repair will be in the range of \$50,000.00 to \$60,000.00.

The Township revenues have plateaued. We do not expect any significant increases in taxes or revenue sharing. The Board has to be very conscientious of the decisions regarding projects.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial reports are intended to provide an overview of the Township's finances and to show necessity for the monies received by the municipality.

Any questions about our report or need for additional information should be directed to the Supervisor of the Township.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	1 089 428 75
Petty cash	150 00
Accounts receivable	804 00
Due from State	<u>26 187 00</u>
Total Current Assets	<u>1 116 569 75</u>
NON-CURRENT ASSETS:	
Capital Assets	2 187 983 34
Less: Accumulated Depreciation	<u>(644 862 00)</u>
Total Non-current Assets	<u>1 543 121 34</u>
TOTAL ASSETS	<u>2 659 691 09</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES:	
Contracts payable – equipment	257 379 77
Contracts payable – roads	<u>440 240 75</u>
Total Non-current Liabilities	<u>697 620 52</u>
Total Liabilities	<u>697 620 52</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	1 285 741 57
Unrestricted	<u>676 329 00</u>
Total Net Assets	<u>1 962 070 57</u>
TOTAL LIABILITIES AND NET ASSETS	<u>2 659 691 09</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS		<u>Charges for Services</u>	
Governmental Activities:			
Legislative	4 353 26	-	(4 353 26)
General government	132 113 60	32 880 03	(99 233 57)
Public safety	225 799 17	51 488 50	(174 310 67)
Public works	104 050 11	-	(104 050 11)
Culture and recreation	216 780 84	-	(216 780 84)
Interest on long-term debt	36 566 70	-	(36 566 70)
Total Governmental Activities	<u>719 663 68</u>	<u>84 368 53</u>	<u>(635 295 15)</u>
General Revenues:			
Property taxes			436 580 20
Penal fines			43 665 18
State revenue sharing			179 110 06
Interest			5 938 26
Miscellaneous			26 375 46
Total General Revenues			<u>691 669 16</u>
Change in net assets			56 374 01
Net assets, beginning of year			<u>1 905 696 56</u>
Net Assets, End of Year			<u>1 962 070 57</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	379 724 02	184 916 28	475 130 04	49 380 43	1 089 150 77
Petty cash	-	-	100 00	50 00	150 00
Accounts receivable	804 00	-	-	-	804 00
Due from State	26 187 00	-	-	-	26 187 00
Due from other funds	<u>277 98</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>277 98</u>
Total Assets	<u>406 993 00</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>49 430 43</u>	<u>1 116 569 75</u>
<u>Liabilities and Fund Equity</u>					
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	<u>406 993 00</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>49 430 43</u>	<u>1 116 569 75</u>
Total fund equity	<u>406 993 00</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>49 430 43</u>	<u>1 116 569 75</u>
Total Liabilities and Fund Equity	<u>406 993 00</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>49 430 43</u>	<u>1 116 569 75</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	1 116 569 75
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	2 187 983 34
Accumulated depreciation	(644 862 00)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Contracts payable – equipment	(257 379 77)
Contracts payable – roads	<u>(440 240 75)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>1 962 070 57</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2005

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:					
Property taxes	122 209 91	117 788 22	196 582 07	-	436 580 20
Licenses and permits	5 208 47	-	-	48 613 50	53 821 97
State revenue sharing	172 528 00	-	6 582 06	-	179 110 06
Charges for services:					
Property tax administration	27 671 56	-	-	-	27 671 56
Fire	-	2 875 00	-	-	2 875 00
Penal fines	-	-	43 665 18	-	43 665 18
Interest	1 507 51	579 63	3 785 62	65 50	5 938 26
Miscellaneous	2 718 58	4 355 08	19 142 80	159 00	26 375 46
Total revenues	<u>331 844 03</u>	<u>125 597 93</u>	<u>269 757 73</u>	<u>48 838 00</u>	<u>776 037 69</u>
Expenditures:					
Legislative:					
Township Board	4 353 26	-	-	-	4 353 26
General government:					
Supervisor	10 538 94	-	-	-	10 538 94
Elections	4 991 14	-	-	-	4 991 14
Assessor	20 087 11	-	-	-	20 087 11
Clerk	34 503 97	-	-	-	34 503 97
Board of Review	1 328 69	-	-	-	1 328 69
Treasurer	14 329 27	-	-	-	14 329 27
Building and grounds	37 060 23	-	-	-	37 060 23
Professional services	2 481 25	-	-	-	2 481 25
Public safety:					
Fire protection	11 740 00	76 110 59	-	-	87 850 59
Ambulance	22 126 30	-	-	-	22 126 30
Building inspection	-	-	-	-	-
Planning and zoning	8 969 66	-	-	38 372 62	38 372 62
Public works:					
Highways and streets	103 347 14	-	-	-	103 347 14
Drains	702 97	-	-	-	702 97
Culture and recreation:					
Library	-	-	195 752 84	-	195 752 84
Capital outlay	-	2 500 00	89 608 34	-	92 108 34
Debt service	117 862 72	28 307 60	-	-	146 170 32
Total expenditures	<u>394 422 65</u>	<u>106 918 19</u>	<u>285 361 18</u>	<u>38 372 62</u>	<u>825 074 64</u>
Excess (deficiency) of revenues over expenditures	(62 578 62)	18 679 74	(15 603 45)	10 465 38	(49 036 95)
Fund balances, July 1	<u>469 571 62</u>	<u>166 236 54</u>	<u>490 833 49</u>	<u>38 965 05</u>	<u>1 165 606 70</u>
Fund Balances, June 30	<u>406 993 00</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>49 430 43</u>	<u>1 116 569 75</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (49 036 95)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(96 301 00)
Capital Outlay	92 108 34

Repayment of debt principal is an expenditure in the governmental funds, the repayment
does not have an effect in the statement of activities but does reduce the debt
balance in the statement of net assets

Principal payments on long-term debt	109 603 62
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>56 374 01</u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of North Branch, Lapeer County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of North Branch. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2004 tax roll millage rate was 2.9595 mills, and the taxable value was \$81,834,669.00.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	3-23 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 138 852 73</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	200 000 00
Uninsured and Uncollateralized	<u>971 537 25</u>
Total Deposits	<u>1 171 537 25</u>

The Township of North Branch did not have any investments as of June 30, 2005.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/05</u>
Land	75 500 00	-	-	75 500 00
Buildings	1 105 733 00	89 608 34	-	1 195 341 34
Equipment	<u>914 642 00</u>	<u>2 500 00</u>	<u>-</u>	<u>917 142 00</u>
Total	2 095 875 00	92 108 34	-	2 187 983 34
Accumulated Depreciation	<u>(548 561 00)</u>	<u>(96 301 00)</u>	<u>-</u>	<u>(644 862 00)</u>
Net Capital Assets	<u><u>1 547 314 00</u></u>	<u><u>(4 192 66)</u></u>	<u><u>-</u></u>	<u><u>1 543 121 34</u></u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2005, was \$12,057.76.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

As of June 30, 2005, the Township had building permit revenues of \$48,613.50 and building permit expenses of \$38,372.62.

Note 9 – Interfund Receivables and Payables

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u><u>277 98</u></u>	Current Tax Collection	<u><u>277 98</u></u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 7/1/04	Additions	Deductions	Balance 6/30/05
Fire Building and Truck Contract Payable	222 704 06	-	17 697 99	205 006 07
Fire Truck Contract Payable	64 346 00	-	11 972 30	52 373 70
Road Contract Payable	30 174 08	-	9 933 33	20 240 75
Road Commission Contract Payable	490 000 00	-	70 000 00	420 000 00
Total	<u>807 224 14</u>	<u>-</u>	<u>109 603 62</u>	<u>697 620 52</u>

Note 11 – Fire Building and Truck Contract Payable

On December 2, 1998, through an installment purchase contract with J.A. Contracting and Independent Bank East Michigan, the bank agreed to pay the contractor \$300,000.00 to partially fund the construction of a new fire truck and EMS building. The contract is payable by annual installment of \$28,215.00 including interest at the rate of 4.65% per annum, beginning December 2, 1999. The principal balance as of June 30, 2005, was \$205,006.07.

Note 12 – Fire Truck Contract Payable

On October 27, 2003, the Township borrowed \$64,346.00 from a bank to pay the balance owed on a new fire truck. The loan is payable in five annual installments of \$14,200.10 including interest at the rate of 3.28% per annum beginning November 10, 2004. The principal balance as of June 30, 2005, was \$52,373.70.

Note 13 – Road Contract Payable

On December 14, 1994, through an installment purchase construction contract with the Lapeer County Road Commission, the Township borrowed \$149,000.00 from a bank which was used for road work. The loan is payable in 15 annual installments beginning October 1, 1995. The principal balance as of June 30, 2005, was \$20,420.75.

Note 14 – Contract Payable – Lapeer County Road Commission

On February 7, 2001, the Township entered into a contract to pay the Lapeer County Road Commission the total amount of \$700,000.00 over a ten year period for road improvements that were made during the fiscal year ended June 30, 2002. The payments are due in semi-annual payments beginning August 1, 2001, including interest at rates from 4.9% to 5.5% per annum. As of June 30, 2005, the principal balance of the contract payable was \$420,000.00.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 14 – Contract Payable – Lapeer County Road Commission (continued)

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
8/1/05	5.25%	\$70 000 00
8/1/06	4.80	70 000 00
8/1/07	4.85	70 000 00
8/1/08	4.90	70 000 00
8/1/09	4.95	70 000 00
8/1/10	5.00	<u>70 000 00</u>
Total		<u><u>\$420 000 00</u></u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	150 000 00	150 000 00	122 209 91	(27 790 09)
Licenses and permits	2 500 00	2 500 00	5 208 47	2 708 47
State revenue sharing	168 000 00	168 000 00	172 528 00	4 528 00
Charges for services:				
Property tax administration	-	-	27 671 56	27 671 56
Interest	2 000 00	2 000 00	1 507 51	(492 49)
Miscellaneous	29 600 00	4 100 00	2 718 58	(1 381 42)
Total revenues	<u>352 100 00</u>	<u>326 600 00</u>	<u>331 844 03</u>	<u>5 244 03</u>
Expenditures:				
Legislative:				
Township Board	4 345 00	4 445 00	4 353 26	(91 74)
General government:				
Supervisor	10 750 00	10 585 00	10 538 94	(46 06)
Elections	5 000 00	5 196 00	4 991 14	(204 86)
Assessor	22 300 00	23 905 00	20 087 11	(3 817 89)
Clerk	41 310 00	42 036 00	34 503 97	(7 532 03)
Board of Review	1 700 00	1 700 00	1 328 69	(371 31)
Treasurer	18 140 00	18 140 00	14 329 27	(3 810 73)
Building and grounds	37 425 00	39 825 00	37 060 23	(2 764 77)
Professional services	3 500 00	3 500 00	2 481 25	(1 018 75)
Public safety:				
Fire protection	17 100 00	15 900 00	11 740 00	(4 160 00)
Ambulance	23 000 00	23 000 00	22 126 30	(873 70)
Planning and zoning	3 537 00	13 321 00	8 969 66	(4 351 34)
Public works:				
Highways and streets	150 000 00	150 000 00	103 347 14	(46 652 86)
Drains	300 00	705 00	702 97	(2 03)
Capital outlay	85 000 00	70 345 00	-	(70 345 00)
Debt service	119 000 00	119 000 00	117 862 72	(1 137 28)
Total expenditures	<u>542 407 00</u>	<u>541 603 00</u>	<u>394 422 65</u>	<u>(147 180 35)</u>
Excess (deficiency) of revenues over expenditures	(190 307 00)	(215 003 00)	(62 578 62)	152 424 38
Fund balance, July 1	<u>299 361 00</u>	<u>299 361 00</u>	<u>469 571 62</u>	<u>170 210 62</u>
Fund Balance, June 30	<u>109 054 00</u>	<u>84 358 00</u>	<u>406 993 00</u>	<u>322 635 00</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE FUND
Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	125 000 00	125 000 00	117 788 22	(7 211 78)
Charges for services	7 500 00	7 500 00	2 875 00	(4 625 00)
Interest	500 00	500 00	579 63	79 63
Miscellaneous	<u>1 100 00</u>	<u>1 100 00</u>	<u>4 355 08</u>	<u>3 255 08</u>
Total revenues	<u>134 100 00</u>	<u>134 100 00</u>	<u>125 597 93</u>	<u>(8 502 07)</u>
Expenditures:				
Public safety:				
Fire protection	106 700 00	106 700 00	76 110 59	(30 589 41)
Capital outlay	5 000 00	5 000 00	2 500 00	(2 500 00)
Debt service	<u>30 000 00</u>	<u>30 000 00</u>	<u>28 307 60</u>	<u>(1 692 40)</u>
Total expenditures	<u>141 700 00</u>	<u>141 700 00</u>	<u>106 918 19</u>	<u>(34 781 81)</u>
Excess (deficiency) of revenues over expenditures	(7 600 00)	(7 600 00)	18 679 74	26 279 74
Fund balance, July 1	<u>50 783 00</u>	<u>50 783 00</u>	<u>166 236 54</u>	<u>115 453 54</u>
Fund Balance, June 30	<u><u>43 183 00</u></u>	<u><u>43 183 00</u></u>	<u><u>184 916 28</u></u>	<u><u>141 733 28</u></u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND
Year ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	160 000 00	160 000 00	196 582 07	36 582 07
State revenue sharing	8 300 00	8 300 00	6 582 06	(1 717 94)
Penal fines	45 000 00	45 000 00	43 665 18	(1 334 82)
Interest	5 000 00	5 000 00	3 785 62	(1 214 38)
Miscellaneous	12 000 00	12 000 00	19 142 80	7 142 80
Total revenues	<u>230 300 00</u>	<u>230 300 00</u>	<u>269 757 73</u>	<u>39 457 73</u>
Expenditures:				
Culture and recreation:				
Library	247 900 00	273 400 00	195 752 84	(77 647 16)
Capital outlay	<u>150 000 00</u>	<u>150 000 00</u>	<u>89 608 34</u>	<u>(60 391 66)</u>
Total expenditures	<u>397 900 00</u>	<u>423 400 00</u>	<u>285 361 18</u>	<u>(138 038 82)</u>
Excess (deficiency) of revenues over expenditures	(167 600 00)	(193 100 00)	(15 603 45)	177 496 55
Fund balance, July 1	<u>167 600 00</u>	<u>193 100 00</u>	<u>490 833 49</u>	<u>297 733 49</u>
Fund Balance, June 30	<u>-</u>	<u>-</u>	<u>475 230 04</u>	<u>475 230 04</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2005

Township Board:	
Wages	4 107 45
Social security	<u>245 81</u>
	<u>4 353 26</u>
Supervisor:	
Wages	9 790 00
Social security	<u>748 94</u>
	<u>10 538 94</u>
Elections:	
Wages	2 070 00
Printing	<u>2 921 14</u>
	<u>4 991 14</u>
Assessor:	
Wages	16 566 50
Social security	1 267 35
Contracted services	312 50
Office supplies	<u>1 940 76</u>
	<u>20 087 11</u>
Clerk:	
Wages	24 252 94
Social security	1 831 11
Supplies	857 86
Dues	3 338 25
Contracted services	<u>4 223 81</u>
	<u>34 503 97</u>
Board of Review	<u>1 328 69</u>
Treasurer:	
Salary	9 580 08
Social security	732 96
Printing and publishing	<u>4 016 23</u>
	<u>14 329 27</u>
Building and grounds:	
Wages	1 359 00
Social security	103 97
Supplies	658 58
Telephone	3 270 52
Utilities	4 269 48
Insurance and pension	20 972 96
Contracted services	3 769 92
Repairs and maintenance	473 80
Miscellaneous	<u>2 182 00</u>
	<u>37 060 23</u>
Professional services	<u>2 481 25</u>
Fire protection	<u>11 740 00</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2005

Ambulance	<u>22 126 30</u>
Planning and zoning	<u>8 969 66</u>
Highways and streets: Contracted services	<u>103 347 14</u>
Drains	<u>702 97</u>
Debt service	<u>117 862 72</u>
Total Expenditures	<u><u>394 422 65</u></u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
June 30, 2005

	<u>Building</u>	<u>Fire</u>	<u>Library</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	49 380 43	184 916 28	475 130 04	709 426 75
Petty cash	<u>50 00</u>	<u>-</u>	<u>100 00</u>	<u>150 00</u>
Total Assets	<u>49 430 43</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>709 576 75</u>
<u>Liabilities and Fund Balances</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved:				
Undesignated	<u>49 430 43</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>709 576 75</u>
Total Liabilities and Fund Balances	<u>49 430 43</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>709 576 75</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS
Year ended June 30, 2005

	<u>Building</u>	<u>Fire</u>	<u>Library</u>	<u>Total</u>
Revenues:				
Property taxes	-	117 788 22	196 582 07	314 370 29
Licenses and permits	48 613 50	-	-	48 613 50
State revenue sharing	-	-	6 582 06	6 582 06
Charges for services	-	2 875 00	-	2 875 00
Penal fines	-	-	43 665 18	43 665 18
Interest	65 50	579 63	3 785 62	4 430 75
Miscellaneous	159 00	4 355 08	19 142 80	23 656 88
Total revenues	<u>48 838 00</u>	<u>125 597 93</u>	<u>269 757 73</u>	<u>444 193 66</u>
Expenditures:				
Fire protection	-	76 110 59	-	76 110 59
Building inspection	38 372 62	-	-	38 372 62
Library	-	-	195 752 84	195 752 84
Capital outlay	-	2 500 00	89 608 34	92 108 34
Debt service	-	28 307 60	-	28 307 60
Total expenditures	<u>38 372 62</u>	<u>106 918 19</u>	<u>285 361 18</u>	<u>430 651 99</u>
Excess (deficiency) of revenues over expenditures	10 465 38	18 679 74	(15 603 45)	13 541 67
Fund balances, July 1	<u>38 965 05</u>	<u>166 236 54</u>	<u>490 833 49</u>	<u>696 035 08</u>
Fund Balances, June 30	<u>49 430 43</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>709 576 75</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2005

	<u>Balance</u> <u>7/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/05</u>
<u>Assets</u>				
Cash in Bank	<u>2 023 13</u>	<u>2 227 311 76</u>	<u>2 179 632 93</u>	<u>49 701 96</u>
<u>Liabilities</u>				
Due to other funds	195 16	244 498 03	244 415 21	277 98
Due to others	<u>1 827 97</u>	<u>1 982 813 73</u>	<u>1 935 217 72</u>	<u>49 423 98</u>
Total Liabilities	<u>2 023 13</u>	<u>2 227 311 76</u>	<u>2 179 632 93</u>	<u>49 701 96</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

August 17, 2005

To the Township Board
Township of North Branch
Lapeer County, Michigan

We have audited the financial statements of the Township of North Branch for the year ended June 30, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of North Branch in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of North Branch
Lapeer County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2005.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer: Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants